Vendredi 15 mai 2015 (14h-16h)

LGCO – salle de réunion

129 A avenue de Rangueil

http://www.lgco.iut-tlse3.fr/

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Présentera un article intitulé :

"Defying Gravity: Are more costly earnings signals more credible?"

Abstract :

While increases in earnings are common and many of their properties have been previously documented, we study a new setting in which earnings increases have the potential to signal a separating equilibrium. We examine firms that report increases in earnings despite experiencing a decline in sales from continuing operations, and label such firms as *Defying Gravity* (DG). We show that the DG signal is informative: it predicts higher future earnings, cash flows, and one-year-ahead stock returns. We also show that the DG signal is a stronger predictor of future performance when it is more costly to produce: DG firms subsequently perform better when (1) DG firms are in poorer financial health, (2) the magnitude of the

earnings shortfall is larger (DG firms have a higher proportion of fixed costs), (3) DG firms pass up the opportunity of taking a 'big bath' in times of crisis (years where declines in earnings can be blamed on economy-wide shocks), and (4) DG firms have less flexibility to manage earnings upwards. Finally, because some degree of pooling remains within DG firms, we show that the DG signal is a stronger predictor of future performance when it is produced in parallel with abnormal insider buying. To our knowledge, this study is the first to provide empirical evidence that earnings increases that are more costly to achieve are more credible signals of future performance.